



**Hinduja Global Solutions Limited**  
**Q1 FY2012 Earnings Conference Call**  
**July 29, 2011**

**Moderator**

Ladies and gentlemen good day and welcome to the Hinduja Global Solutions Limited Q1 FY12 earnings conference call. As a reminder for the duration of this conference, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during the conference call, please signal an operator by pressing '\*' and then '0' on your touchtone telephone. Please note that this conference is being recorded. At this time, I would like to hand the conference over to Mr. Mayank Vaswani from CDR India. Thank you and over to you sir.

**Mayank Vaswani**

Thank you. Good evening to everyone in India and a good morning to our overseas attendees. Thank you for joining us on this call to discuss our financial results for the quarter ended June 30<sup>th</sup> 2011, which were announced earlier today. On the call today, we have with us Mr. Partha Sarkar, CEO and Mr. Srinivas Palakodeti, CFO. Before we begin, I would like to mention that some of the statements made in today's discussions may be forward-looking in nature and may involve risks and uncertainties. For a more complete listing of such risks and uncertainties, please refer to our investor presentation. Please also note that our Annual Report for FY2011 is available on the corporate website, that's [www.teamhgs.com](http://www.teamhgs.com). Documents relating to our financial performance have been emailed to all of you earlier and have also been posted on our corporate website. I will now hand over the floor to Mr. Partha Sarkar to provide key highlights of our performance for the quarter.

**Partha Sarkar**

Good evening to all of you and thanks for joining the call. I trust that all of you have been through our numbers, which were sent out earlier today. I will provide you with an overview of the operating highlights and a business overview before handing over to Mr. Palakodeti who will take you through the financials in detail. The revenue for the quarter was 278.4 crore approximately \$62.2 million, an increase of nearly 22.8% over the revenues of 226 crore approximately \$49.7 million in Q1 of 2011. Compared to the same quarter last year, we are operating at a different level now, given the addition of Careline as well as the increased volumes from our centers in Manila, Guntur, Siliguri, and the Bangalore SEZ. On a sequential quarter basis, the revenues are lower by 5.14%. This decline is due to the seasonality in our client businesses where the volumes at the start of the year in January are not replicated in April and June quarter. So the volumes in US on-shore and in Manila in India for offshore have been hit by seasonality. The other reason is the lower realization that we get on



account of the weakening Dollar where the rates for the US Dollar, Indian Rupee as well for the US dollar Philippine peso have gone against us. EBITDA for the quarter was 29.7 crore and it has contracted 5.5% from EBITDA of 31.5 crore in the same quarter last year, which is largely on account of one-time fee income that we had in Quarter 1 of 2010 on account of some consulting project that we did in UK, that is absent this year. On a sequential quarter basis, EBITDA is lower by 32.6% and the EBITDA margin was 10.6%. The EBITDA has been hit by a slight moderation of revenues. Additionally; we were impacted by wage hikes in India, which has driven our employee cost higher by little under 2% despite a stable headcount.

The net profit for the quarter was nearly 20.3 crore which was lower by 12.1% compared to the PAT of 23.1 crore in Quarter 1 of last year. On a sequential quarter basis, the PAT was lower by 24.3%. The PAT has been further impacted by adjustments for the foreign exchange fluctuation as well as higher interest rates.

In the last financial year in FY11, we started Quarter 1 with a lower EBITDA margin and were able to steadily increase our margins for the year. This year is no different; you will find our margins improving quarter-on-quarter as the effect of seasonality wears off. We are also looking at driving enhanced efficiencies in our business where we see an increase in margins to increase utilization and ramp-up at the centers which have been setup recently. We also seize scope to address the account mix where we can get work on some of the cash absorbing accounts to be either increase in pricing, dry period of volumes or rationalized resources.

Coming to the business environment, there continues to be many moving parts in the global economy. The US is one down QE-2 and there are indications that they will be monitoring the economy before deciding on infusion of any further subsidy. The other issue that needs to be addressed to the situation of raising the debt ceiling to avoid the possibility of a ratings downgrade. Europe continues to be remain sluggish and recent events has reignited the debate of financial stability on certain banks and companies in the EU.

In India the economy continues to progress well, but the growth rate has tapered off as the monetary tightening undertaken by RBI is now reflecting in corporate performance.

I am pleased to share that despite the many variables, we have experienced a good growth in all our geographies of operation. This has come about from a strong focus on select domain. As all of you know, our top three verticals are consumer electronics, healthcare, and telecom. We have deep domain experience in these businesses



and a significant portion of our growth in the business has come from farming these vertical as customers recognize the value that we can add to the business. We have also witnessed traction in the healthcare vertical in some of the new areas that we are focused on recently. We will look to grow these to critical size before marketing them aggressively. The recently added client accounts are performing well and another couple of quarters may see some scaling up of those businesses.

One of our healthcare clients, customer services division went live in our SEZ unit in Bangalore. This will be the first full-fledged provider call center dealing with patients and accounting queries as well as billing and payment queries. Existing clients are happy with our performance and continue to bring up additional opportunities. The strategy of nurturing existing clients to increase volumes and share of business has worked well for us. As we are entrusted with an increased scope of work, the enhanced relationship also leads to dialogue about value which we bring to the table by participating in additional processes in other areas of client businesses.

In the UK, despite the challenges in the environment, we continue to perform very creditably despite a less than upbeat economic scenario. Careline continues to deliver growth as well as an improvement in EBITDA. There is a focus on austerity as the government has to bring down its expenditure. Further customer confidence is not high as the last years have been difficult for the economy. We have been able to engage with Careline's customers very well, this has led to several contracts in all. One of the prime customers in the UK, Unilever encouraged by our experience in the global delivery has signed up a contract to expand operations in four other cities in the Europe. The first part of this rollout involves setting up a center in Hamburg in Germany which will go live in August. Careline was envisaged as a gateway to Europe and this is our first step to applying for organic growth in Europe. We have also seen orders wins during the quarter including a very high profile public sector contract. To accommodate this new business, we will be setting up another center in London as we are in the process of identifying an appropriate venue. We are bidding for a few contracts with strong brands. Our first offshore contract will go live from July. This will be the first Manila contract to have delivery in the UK, so we are very excited and we look to grow this aspect of the UK business. The integration of Careline has been progressing well. Careline clients are happy to have the option of being able to leverage on our centers in North America, Philippines and India as well as the experience of nearly 20,000 employees and competence will span over 500 different processes. A significant share of our revenue now comes from our UK operations and at the cost of repetition, it's a valuable addition to our portfolio as it has



diversified our geographies, currencies, and industries of operation as well provided an additional avenue for growth.

Philippines remains the key performer in our global operations. It has continued its high growth in the global industry and the Philippines has for the first time exceeded India in voice based BPO market. There are over 700,000 employees employed in this industry and the growth continues to be very impressive. Being pioneers in bringing this industry to the Philippines, we have now been in the Philippines for over eight years. We have commissioned our third site in the heart of Philippines in the province of Iloilo, an hour's flying distance from the city of Manila. This site went live in March 2011 with 500 seats and currently three our clients have operations or are setting up operations there. Operations continue to perform well and we have commenced offshore deliveries of large US clients, which were previously restricting themselves to local US delivery and the initial response is very positive.

This quarter has also witnessed strong growth across all major accounts led by health insurance and financial services. The outlook for Philippines is better than originally anticipated as we have already filled up our Iloilo center and are now looking for the fourth center in that country.

Coming to the India domestic operations, FY12 is shaping up better than FY11. Revenues from the India domestic market have increased for five consecutive quarters. We are progressing well with our center in Siliguri and are in talks with clients to expand further. Our clients in the telecom industry have begun to witness increased revenue per customer following the introduction of 3G services. With mobile number portability in place, some of them are also witnessing increased volumes. We have expanded our service offerings to the telemedia line of business as we now we offer managed services as well as unit support. We have also added non-voice services as the government's chat services for some of our telecom clients. There have been new clients wins and we have improved profitability on some of our accounts with price increases and innovation in delivery. A recent Gartner study estimates the Indian domestic BPO market to reach 1.4 billion in 2011, 1.69 billion in 2012, and 2.47 billion in 2014. This indicates a sizeable opportunity for growth for us. In order to get a bigger piece of this pie, we have reorganized a management structure of our India businesses. The Indian operations will now have four separate verticals, each headed by a separate business unit head, akin to being a CEO or COO for that vertical. In order to provide emphasis to growing the telecom account, we will have to split the major account as part of one vertical and all other telecom clients roll into the other vertical.



Banking and financial services will form the third vertical and emerging service lines will be the fourth. However, while this has taken shape in the domestic market, it is a strategy that we would like to replicate in the other markets, by looking at successes. We intend to create a strong local presence in each of the geographies that we operate in, we would have different teams to steer at the international and national businesses and would also further realign our businesses to verticals, wherein each vertical would function like an independent strategy business unit.

In our emerging service line verticals, we have few areas of interest. We have just now entered into a contract to undertake receivables management. We are exploring possibilities in HR on payroll processing and have also recently entered into a contract with a NGO on a pilot basis for the project of 30 seats.

Other areas where we see great potential is the education sector. We see a lot of opportunities in the BFSI sector as well, while we have already have business from this sector, it generated around 5% of revenues in FY11, there is a scope to increase revenues further. The sector has been a bit subdued following with recession in 2008 and historically our exposure to the sector meant we did not get severely impacted from the recession. However, we believe that the sector will be able to deliver growth going forward and we are focused on increasing our presence in scope of services in this sector. Apart from adding new verticals, we continue to seek ways in which to expand our global footprint. We have received a letter of intent in Jamaica for a client to start operations for which the company formation is underway. The center would primarily cater to the near shore market in the US. There have also been discussions about entering interesting markets in Latin America and we are scouting for the right opportunities. We believe that the Chinese domestic market is an important market which we should be present in. Africa is another market that is starting to look very attractive and we will be keen to explore any opportunities that may arise there. Revenues from these markets will help us grow and reduce dependence on existing geographies.

We have also undertaken significant initiatives on talent management in order to leap to the next level, we need to strengthen various levels of management within HGS. We have increased investments in training and talent management and are confident that the benefits will reflect in the coming quarters. We also continue to make the appropriate investments in technology to ensure that we are adopting best practices and are able to drive operational excellence for clients. I hope all of you have seen our new logo. We have just undertaken a brand building initiative and invested resources to ensure that our brand recall and awareness improves. Given the enhanced scale and



international presence of the company, we felt the need for a contemporary look to drive marketing efforts, enhanced perception amongst the existing clients and to be viewed as an exciting destination for employees across the globe. For our international clients and employees, the shorter version of our name that is HGS, which is an acronym for Hinduja Global Solutions, is a shorter, sweeter, and an easier name to deal with, that is what our new corporate entity emphasizes and that's what is there in our brand.

To conclude, it has been an interesting Quarter 1 and if Quarter 1 is any indication then FY12 will be an eventful year for us. We are hungry for growth and are scouting for opportunities across the globe given our expanded reach and global delivery model.

That's all from my end. I will not hand over to Pala, who will walk you through the financials. Thank you.

**Srinivas Palakodeti**

Thank you Partha. Good evening everyone, thank you for joining our call. I will briefly take you through the financials. For the 1<sup>st</sup> Quarter of this financial year, our revenues stood at 278.4 crore, an increase of about 23% over the corresponding period last year. On a sequential growth basis, revenues were lower by about 5% from Rs. 293.5 crore for quarter ending March. As Partha mentioned the drop in revenues is primarily due to the seasonality in the business of our clients and also the effect of the weakening Dollar. EBITDA for the quarter was Rs 29.7 crore as compared to Rs 44 crore for the quarter ended March 2011. The EBITDA margin has trended down to around 11% for this quarter. Apart from the impact of the EBITDA margin due to moderation in revenues, the impact of wage hikes in India business has also resulted in lowering of the margin. The consolidated PAT for this quarter was Rs 20.3 crore as against Rs 23.1 crore for the quarter ending June 2010. PAT was lower by about 34% on a sequential quarter basis as compared to the PAT of around 30.9 crore for the quarter ending March 2011. PAT drop has been driven partly due to adverse currency movements and also the increase in interest rates.

Moving into revenue analysis, revenues from US and from Manila were affected by the seasonality and adverse movement of the US Dollar. India domestic revenues were higher on a sequential basis as has been the case for quite a few quarters now. Revenues from UK increased by about 2.2% on a sequential quarter basis and is showing steady progress.

On a corresponding quarter basis, there has been strong growth from all geographies, save the US. India and Manila have seen increasing volumes driven by increasing utilization of recently set-up centers in these geographies. In terms of verticals, the chemical and biotech





vertical and the BSF vertical have registered growth on a sequential basis while other verticals show the typical seasonal drift. On a corresponding quarter basis, revenues from all verticals posted double digit growths with chemical and biotech and telecom and technology verticals being the best performers.

A quick look at the India based revenues shows a steady improvement in the India domestic business. The Indian offshore business has managed to deliver positive growth despite headwinds on account of fluctuation in foreign exchange rates. Revenue analysis show a decline in Dollar based revenues. This covers contribution from onshore operations in the US as well as offshore operations in Manila and India. UK has increased its contribution on a sequential basis and now accounts for around 13 % of the total revenues for the quarter. India domestic business also shows positive growth rate.

On the expenditure side, there is pressure on cost especially in our domestic operations. Wage hike cost and interest costs have put pressure on margins. We have tried to control other expenditure despite investments in people, technology and in marketing. The employee count has increased in the quarter due to growth in the business as compared to quarter ended June 2010. On a sequential growth basis, employee numbers have declined in some quarters due to seasonal ramp up operations in these geographies, but counterbalanced by new centers where we were adding employees.

A quick word on our cash balance, the total cash and cash equivalent stand at around 715 crore, a sum of Rs. 566 crore is in the Mauritius subsidiary. If we adjust the debt against this we get a net cash balance of 493 crore which works out to Rs. 239 per share that is around 48% of our book value of Rs. 496.5 per share.

That is all from our side. We can move into the question and session.

**Moderator**

The first question is from the line of Vikas Jain from Greshma Shares. Please go ahead.

**Vikas Jain**

We have been hearing about that inorganic growth for quite some time, any progress on that?

**Partha Sarkar**

Basically that's an ongoing activity for us we keep looking at targets to see what suits our strategic business mix and is something that I cannot comment beyond this point. We are very bullish about our inorganic plan, how we grow our businesses over the years. Today I think we have integrated about five acquisitions globally, so it's something for which we have track figures, while I understand the



impatience, it is something that I cannot comment any further right now.

**Vikas Jain**

But have you identified few of the companies or are you in negotiation with?

**Partha Sarkar**

I will not be able to answer such specific questions on that because that's not allowed.

**Vikas Jain**

Second thing, what is our current utilization rate in the BPO segment?

**Srinivas Palakodeti**

That would typically be around somewhere in the range of 80%-82% and anything beyond 85% means you are running at a peak capacity because the balance seats would be used for training, etc So as we said this is a relatively flat season. So the numbers also in terms of seat utilization would show up that way.

**Vikas Jain**

What was there in the last quarter?

**Srinivas Palakodeti**

That was around 85%.

**Vikas Jain**

Has it come down?

**Srinivas Palakodeti**

Adding seats and this is as I said slack season as seen ts by the drop in revenue. So utilization level being lower is reflection of the seasonality of the business.

**Vikas Jain**

How many seats we are having right now aggregate in India and outside global business?

**Srinivas Palakodeti**

It is around 17,000 seats.

**Vikas Jain**

That is overall?

**Srinivas Palakodeti**

Overall levels.

**Moderator**

The next question is from the line of Anand Raghvendra from Allegro Capital.

**Anand Raghvendra**

I just noticed the revenue contribution by geography and in terms of revenue from North America, it is 948 for this quarter June 11 and it is 961 for June 2010, I mean there has not been any growth in that side. Could you provide some details or clarity on that please?

**Srinivas Palakodeti**

There are two parts, one is the delivery which is happening in the US and the other which is happening in the delivery centers and also bear





in mind because of the exchange rate variation, the exchange rate which was there about a quarter ago was substantially higher that's off by about a rupee now, so both are making an impact.

- Anand Raghvendra** But in terms of business from US, how do you see the growth?
- Partha Sarkar** This is what we were trying to explain to you that there is always seasonality in Quarter 1 which is our slowest quarter for all revenues that we manage from North America, whether it is delivered onshore or offshore. So this is usual to our business, it's been historically attractive and every year Quarter 1 has been a slow start.
- Anand Raghvendra** Because I was actually comparing it with Quarter 1 of last year, so the seasonality factor would not be in picture if we compare it with Quarter 1 last year.
- Partha Sarkar** So that is in accounting for the exchange rate difference.
- Srinivas Palakodeti** If you look at it overall India domestic has grown, we are at Rs 38 crore this quarter. Compared to last quarter, we have increased by Rs 10 crore. North America has grown and UK has grown, but it is also the impact of the consolidation happening from a particular date. So if you see the only part which looks, in rupee terms lower, is the North America part but if you take into account the exchange rate, there is actually not much difference.
- Anand Raghvendra** In terms of new business additions from North America, how do you view that?
- Partha Sarkar** We have added about five new clients, out of which three are in the North America geography, so we are pretty happy with our new business addition in North America. Also our existing clients, especially in the insurance vertical are giving us a lot of growth. Our SEZ practice that we talked about, has opened up with one huge order from one of our largest clients that is a contract value of about \$3 million annual basis. It has just gone live and also we continue to get additional business from our second largest client. So all of that is what is accounting for the higher growth that you are seeing in India, apart from the growth that is happening purely from India domestic.
- Anand Raghvendra** I understand that the company is looking at inorganic growth opportunities and in addition to that there is surplus cash available with the company. So what are the other opportunities that you are looking at in terms of utilizing the surplus cash?
- Partha Sarkar** Predominantly this cash would be used for inorganic acquisition that's why you have seen that the cash has been there in the company for



such a long time. It is just that we have not identified the right acquisition opportunity to be able to spend this cash that is lying in our subsidiary.

**Anand Raghvendra** So this is purely for inorganic opportunity?

**Partha Sarkar** That is right.

**Anand Raghvendra** In terms of organic opportunities do you think this cash could be utilized?

**Partha Sarkar** No, it would suffer taxation if we were to take it into India and we would, therefore, not want to do that.

**Anand Raghvendra** So this will be purely for inorganic?

**Partha Sarkar** Yes.

**Moderator** Thank you. Sir, we have no further questions at this time. Would you like to add any closing comments?

**Partha Sarkar** Ladies and gentlemen thank you for joining us in the call. We look forward to building up on our successes and we look forward to having you with us again. In case you have further questions and queries please feel free to get in touch with Mr. Palakodeti or our investor relations team, thank you.

**Moderator** Thank you. Ladies and gentlemen on behalf of Hinduja Global Solutions Ltd. that concludes this conference call. Thank you for joining us and you may now disconnect your lines.

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